

## Message Text

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12

ACTION EB-11

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FM AMEMBASSY KUALA LUMPUR

TO AMEMBASSY TEGUCIGALPA

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AMEMBASSY TOKYO

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E.O. 11652: N/A

TAGS: ETRD EIND

SUBJECT: AGALTECA STEEL PROJECT

REF: TEGUCIGALPA 2238

1. MALAYAWATA STEEL BERHAD WAS INCORPORATED OCTOBER 1961, THE FIRST INTEGRATED STEEL MILL IN SEA. ITS OBJECTIVE IS PRIMARILY TO SUPPLY DOMESTIC REQUIREMENTS FOR STEEL PRODUCTS AND CAST PGI IRON. SURPLUSES OVER LOCAL REQUIREMENTS WILL EVENTUALLY BE EXPORTED TO NEIGHBORING COUNTRIES.

2. PROJECT COST OF THE PLANT WAS M\$96 MILLION. (US\$1.00 EQUALS M\$2.33) THE BULK OF THIS IS ACCOUNTED FOR BY PLANT AND MACHINERY, BUT CAN BE DIVIDED INTO VARIOUS PHASES INCLUDING SEVEN CHARCOAL KILN CENTERS, SINTERING PLANT, NO. 1 & 2 BLAST FURNACES, STEEL MAKING PLANT, ROLLING MILL AND OXYGEN PLANT. A SUBSIDIARY COMPANY, WHICH IS WHOLLY OWNED, IS KNOWN AS MALAYSAWATA CHARCOAL SENDRIAN BERHAD, WHICH MANUFACTURES AND SUPPLIES CHARCOAL TO THE PARENT COMPANY FROM ITS SEVEN KILN CENTERS, UTILIZING MAINLY WASTE RUBBER WOOD AS RAW MATERIAL.

3. AUTHORIZED CAPITAL OF THE COMPANY IS M\$250,000,000 AND PRESENT

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PAID-UP CAPITAL IS M\$38,875,000. THE MAIN SHAREHOLDERS ARE THE

MALAYSIAN GOVERNMENT, MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE BHD. (A QUASI-GOVERNMENTAL AUTHORITY); THE MALAYSIAN PUBLIC; NIPPON STEEL CORP. GROUP AND THE INTERNATIONAL FINANCE CORPORATION.

4. ON JUNE 8 THE FIRM ANNOUNCED THAT IT WILL INCREASE PRODUCTION CAPACITY TO MEET INCREASED DEMAND FOR STEEL. THE FIRM WILL INCREASE ITS ROLLING CAPACITY BY ABOUT 40,000 TONS OF

REINFORCED ROUND BARS PER YEAR, BRINGING THE TOTAL CAPACITY OF ITS ROLLING MILL TO ABOUT 156,000 TONS. THE EXPANSION OF THE ROLLING MILL WILL BE IN TWO STAGES, THE FIRST TO BE COMPLETED IN APRIL 74 AND THE SECOND IN JULY 1975. STEEL-MAKING CAPACITY WILL BE INCREASED TO 185,000 TONS PER YEAR. THE EXPANSION, ESTIMATED AT MORE THAN M\$13 MILLION, WILL BE FINANCED BY A CONSORTIUM OF BANKS IN MALAYSIA. AT PRESENT THE FIRM PRODUCES ABOUT 62 PER CENT OF THE COUNTRY'S CONSUMPTION OF IRON BARS AND OTHER STEEL PRODUCTS.

5. PROFITS OF THE FIRM FOR THE YEAR ENDING MARCH 31, 1972 (LATEST FIGURES AVAILABLE) SHOW A GROUP NET PROFIT OF M\$1,976,246 FOR THE YEAR, OR AN INCREASE OF 79.1 PER CENT OVER PROFITS RECORDED THE PREVIOUS YEAR. NET OPERATING PROFIT SHOWED AN INCREASE OF 23.9 PER CENT.

6. A LOCAL US BANKER, WHO HAS FINANCIAL DEALINGS WITH THE FIRM TOLD THE EMBASSY QUOTE MALAYSAWATA DOING EXTREMELY WELL, NO FINANCIAL OR OPERATIONAL PROBLEMS UNQUOTE. ANOTHER UNNAMED SOURCE INDICATED THAT IF ANY PROBLEM EXISTS, IT IS POLITICAL, IN THAT THE JAPANESE, WHO HAVE ABOUT 30 PER CENT INTEREST IN THE FIRM AND ARE RESPONSIBLE FOR TECHNICAL AND FINANCIAL ADVICE, COULD CONTROL THE PACE OF STEEL MAKING IN MALAYSIA, WHICH IN THE LONG RUN COULD BE DETRIMENTAL TO

LOCAL CONSUMERS AND EXPORTS. BY CONTROLLING PRODUCTION, THE JAPANESE COULD ASSURE A MARKET FOR STEEL PRODUCTS OF JAPANESE ORIGIN.

7. EMBASSY PREPARED TO ANSWER ANY OTHER QUESTIONS ON THIS VENTURE.

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